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AUDIT REPORTS

Follow-up to recommendations of the report of the Board of Auditors for the biennium 1994-1995 (A/51/5/Add.1)

Report of the Administrator

I. PURPOSE

1. As in previous bienniums, and in accordance with General Assembly resolutions 47/211 of 22 December 1992 (paras. 9, 10 and 12) and 48/216 B of 23 December 1993 (para. 5), the Administrator is bringing to the attention of the Executive Board the report of the Board of Auditors on UNDP for the biennium ending 31 December 1995 (A/51/5/Add.1).

2. The present report has been prepared in response to General Assembly resolution 48/216 B, in which the General Assembly requested the Secretary-General and the executive heads of United Nations organizations and programmes, at the same time as the recommendations of the Board of Auditors are submitted to the General Assembly, through the Advisory Committee on Administrative and Budgetary Questions (ACABQ), to provide the Assembly with their responses and to indicate measures that would be taken to implement those recommendations, with appropriate timetables.

3. The present document contains a tabular summary of recommendations, with paragraph reference to the report of the Board of Auditors for the biennium 1994-1995, listed by area of audit, namely financial issues, reserve for field accommodation, national execution, budgetary performance, management of funds and trust funds, and internal audit. The table also indicates the UNDP response to each recommendation, which was provided to the Board of Auditors during the preparation of its report, as well as the status of any follow-up action and the target date for completion, as at the date of compiling the present document.

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The Administrator is pleased to report that progress has already been achieved in many areas and that efforts are being made to address issues that are still outstanding.

4. The Administrator wishes to indicate that, in response to the above-mentioned resolutions, UNDP has also submitted the present tabular summary report to the General Assembly, through the Secretary-General and ACABQ; it is contained in the report of the Secretary-General on the recommendations of the Board of Auditors (A/51/488/Add.2). The report of ACABQ is contained in document A/51/533.

5. During the course of the audit exercise for the biennium 1994-1995, UNDP provided a detailed written response to all the observations made by the Board of Auditors in the form of management letters. Such observations, findings, recommendations and UNDP responses are reflected in the report of the Board of Auditors.

II. EXECUTIVE BOARD ACTION

6. The Executive Board may wish to:

1. Express its appreciation to the Board of Auditors for the recommendations made to the United Nations Development Programme in an effort to assist in the improvement of its operations;

2. Note with satisfaction that considerable progress has been made by the United Nations Development Programme in implementing the recommendations of previous reports of the Board of Auditors;

3. Further note that the Administrator has taken or is taking action to address all recommendations made by the Board of Auditors in its report for the 1994-1995 biennium.

EXTERNAL AUDIT FOLLOW-UP ACTIONS AND TIMETABLE
Status as of 31 October 1997

Board Recommendation	UNDP response	Follow-up actions	Status and target date
Financial issues 1. UNDP should supplement its existing approach by ensuring that all [national execution] projects with significant expenditure are audited independently (paras. 9 (a) and 70).	UNDP agreed to review the audit strategy and possible changes required to financial regulation 17.2, concerning the external audit of national execution projects.	The audit strategy suggested by the External Auditors for the 1996 audit exercise has been implemented and the results will be assessed by the Board of Auditors (BOA). Action was implemented as scheduled with the active participation of the BOA. A review of Financial Regulation 17.2 was undertaken by the Office of Audit and Performance Review (OAPR), (former Division for Audit and Management Review (DAMR)) and BFAS and no changes are required.	Ongoing
2. UNDP should establish appropriate controls to coordinate and monitor payments made in the field and at headquarters for the construction contracts under the Reserve for Field Accommodation (RFA) (paras. 9 (b) and 85-91)	UNDP has established a working group to address the breakdown in controls, including monitoring and oversight. UNDP is examining the certifying and approving officer functions.	With respect to the RFA, all payments for construction contracts are subject to review by the Special Payments Review Committee. In May 1997, UNDP established Financial Policy and Control Unit within BFAS, which is responsible for the design, maintenance, implementation and monitoring of the internal control framework in collaboration with various partners in the organization. This action aims at a long-term sustainable effort to ensure effective financial control. A concrete action plan for the Unit is under way which will address the broad control issues.	Ongoing

Board recommendation	UNDP response	Follow-up actions	Status and target date
25. DAMR should establish standard documentation, clearly setting out the audit procedures undertaken, and the findings and conclusions; and it should update its permanent files with basic information on the auditees (paras. 14 (e), 58 and 230).	The Board noted that this problem was being addressed as part of DAMR's quality service initiative.	The issues addressed by OAPR in 1997 (work papers, report review, etc.) have been brought to accomplishment and implementation. The Quality Service Initiative activity promoted and ensured common understanding and joint ownership of the results while adhering to standards for the practice of internal audit.	Completed
26. DAMR should survey the risks associated with the operation of headquarters computer systems and provide audit coverage as appropriate (paras. 14 (f), 59 and 233).		OAPR has devoted significant audit services and advisory efforts commensurate with the risk inherent in computer applications. The recent addition of a staff member with extensive computer auditing skills is noteworthy in this regard.	Completed
27. DAMR should establish procedures to follow up on actions taken by UNDP and the United Nations Office for Project Services (UNOPS) in response to internal audit recommendations to demonstrate the improvements made (paras. 14 (g) and 237).	The Board ... welcomes DAMR's plan to strengthen follow-up action as part of its quality service initiative.	OAPR continues to utilize its computer database to record actions and as a basis for follow-up. OAPR has completed two follow-up audits on the results of previous management audits of major country offices. Internal audits contracted for 44 country offices in Africa and for 18 country offices in the Arab states include follow-up of prior audit recommendations.	Ongoing

Board recommendation	UNDP response	Follow-up actions	Status and target date
22. In drawing up its plans, DAMR should assess and record the resource implications and skills needed for the work proposed, taking account of ad hoc demands (paras. 14 (b) and 225).		OAPR work plans include an assessment of resource implications in both financial and staff time. The adoption of a time-reporting system is helping OAPR to track the use of staff time and to manage the application of staff time better. Monitoring of consumption of allocated financial resources is ongoing. Coordination amongst UNDP audit sections as well as between audit services of the United Nations system have resulted in savings (cooperation between OAPR sections and UNESCO used OAPR contracting experience as a means of reducing the cost of mounting its contracting for audit service in several of its offices in Africa).	Completed
23. DAMR should clearly document the criteria used to select subjects proposed for review, which should include materiality, known and potential risks, and the timelines of the proposed audit (paras. 14 (d), 57 and 223-229).		The work plan for 1997 was developed taking into account the responses to a client consultation and continues through the Management Review and Oversight Committee.	Completed
24. All audit sections should produce long-term audit plans identifying proposals covering their audit fields and any resulting resource changes needed (paras. 14 (d), 57 and 223-229).	DAMR anticipated that the implementations of additional regional service centres, further contracting with private sector auditing firms and improvements in the quality and scope of the firms' services would increase the audit coverage of country offices and release DAMR staff resources to carry out more audits at UNDP headquarters.	Using the prior seven year long-term plan, the risk model will be used to develop a 5 year audit plan. OAPR training in critical areas has been accomplished, e.g., investigator training seminar (on an inter-agency basis). Once the budget for 1998-1999 is finalized, OAPR will develop a long-term audit plan.	1st quarter 1998

Board recommendation	UNDP response	Follow-up actions	Status and target date
20. UNDP should establish a monitoring and evaluation strategy [for the funds and trust funds], with clearly defined criteria for selecting programmes for joint monitoring reviews and projects for evaluation (paras. 13 (d) and 198-205).	UNDP has recently developed draft terms of reference for monitoring reviews to be undertaken jointly with Governments and the beneficiaries during the course of country programmes.	In addition to work under progress with GEF and Capacity 21, UNDP has also refined, with the Montreal Protocol Secretariat, the monitoring and evaluation systems.	Ongoing
Internal audit 21. The non-audit function of the Division for Audit and Management Review (DAMR) of the updating manuals should be transferred to an operational unit (paras. 14 (a), 52 and 208-212).		Transfer to Division for Operational Policies and Procedure completed February 1997.	Completed

Board recommendation	UNDP response	Follow-up actions	Status and target date
18. United Nations Development Fund for Women (UNIFEM) and the United Nations Capital Development Fund (UNCDF) should draw up a strategy, setting out their long-term business objectives and approaches for achieving their mandate and objectives (paras. 13 (b), 45 and 179-185).		UNIFEM presented its Business Plan for the period 1997-1999 to the UNDP/UNFPA Executive Board in May 1997. The Board endorsed the Plan; UNIFEM is now engaged in its implementation. UNCDF continues to implement an action plan that emerged out of the recommendations of a 1996 external capacity assessment. In March of 1997, UNCDF published its first annual business plan setting short-medium and long-term business objectives and approaches for achieving the mandate and objectives of the 95 UNCDF policy paper.	Completed Completed
19. UNDP and UNIFEM should prepare and implement a plan, with a clearly defined timetable, to replace UNIFEM's budget management system (BMS) with a system which is integrated with UNDP's main financial system (paras. 13 (c) and 194).	The Administrator had proposed that UNIFEM should replace BMS with UNDP's Project Financial Management System (PFMS).	UNIFEM in consultation with Bureau of Finance and Administrative Services (BFAS), is moving towards adaptation of the UNPD corporate system, Financial Information Management System (FIMS), to meet the Fund's requirements. In addition, discussions are under way to link the UNIFEM FIMS, which is to be developed, to the UNDP PFMS. This will provide UNIFEM with the necessary control on resource allocation while PFMS will provide detailed information on programme expenditure and reports.	Ongoing

Board recommendation	UNDP response	Follow-up actions	Status and target date
15. UNDP should carry out work measurement exercises of country offices' activities to help strengthen its budgetary formulation process at the local level, provide benchmarking data for country offices and to compile standard performance indicators (paras. 12 (a), 41 and 168-169).	UNDP acknowledges the importance of independent work measurement exercises for country offices. UNDP told the Board that one of the projects it was pursuing as part of the management of change initiative concerned the "country office of the future" through which it would review office structures and establish benchmarks and standard performance indicators for country offices.	The "country office of the future" project is currently in progress; it is being pursued in the context of implementing UNDP 2001 Change Management.	Ongoing 31 December 1999
16. UNDP should develop a means of reporting achievement of the activities provided for in the budget (paras. 12 (b), 43 and 171-172).	See recommendation 15 above.	Same as above.	31 December 1999
<u>Management of the funds</u> 17. UNDP should ensure that there is a clear and demonstrable analysis of the mandates of the funds and their contribution to all of UNDP's corporate objectives (paras. 13 (a), 44 and 178).	The Board noted that UNDP's Sustainable Energy and Environment Division (SEED) was developing such an approach for its activities, which included three of the funds reviewed (Global Environment Facility (GEF), Montreal Protocol, United Nations Office to Combat Desertification and Drought).	The mandate and the work programme of the Funds were reviewed in the context of the SEED Centre of Experimentation and the overall Change Management Process of UNDP. It was decided that the Funds related to environment would remain within SEED. This arrangement will be reviewed in one year. The products which result from the work of the Funds and their relevance to the four priority areas of UNDP were further clarified in the discussions of Narrowing the focus: UNDP core development services. UNDP contribution in terms of institutional support to the work of UNSO is now fully funded from the Global Programme. Integrated work-planning will continue.	Ongoing/March 1998

Board recommendation	UNDP response	Follow-up actions	Status and target date
13. UNDP should initiate a further review of the utilization and impact of the Technical Support Services (TSS 2) facility (paras. 11 (g), 135-138 and 156).	UNDP told the Board that the TSS 2 facility would be studied as part of a review of recent experiences of the support cost arrangements. UNDP informed the Board that new instructions would include a mandatory requirement for each national execution project to contain budgetary provisions for technical backstopping or participation by a specialized agency in the review of the project during implementation.	In accordance with Executive Board decision 96/31 on agency support costs, the Support for Technical Services facility (STS) replaces TSS-2 (with effect from 1 January 1997). The decision and the ensuing overview of support cost arrangements under the successor programming arrangements (issued on 23 December 1996 and effective 1 January 1997), stated that in planning the use of STS resources, the particular needs of nationally executed projects should be taken into account. Each nationally executed project being planned must be reviewed to ascertain the need for technical backstopping or participation from specialized agencies/commissions. Technical services for monitoring and evaluation would normally apply to large-scale projects and projects of special complexity. The stage of implementation of the project should also be taken into account when planning for the use of STS resources.	Completed
14. UNDP should develop, in association with the agencies, the information systems required to collect data for national execution performance indicators (paras. 11 (h) and 158-159).	UNDP told the Board that it was giving priority to accelerating the development of appropriate systems for the performance indicators and had engaged a consultant to develop such indicators. UNDP plans to integrate performance indicators for support cost arrangements and national execution with other performance benchmarks for UNDP's programmes.	UNDP has developed new guidelines for national execution. UNDP has also developed some guiding principles on how to develop performance indicators for all projects whatever the modality of execution may be.	Completed

Board recommendations	UNDP response	Follow-up actions	Status and target date
9. UNDP should re-emphasize the need to assess the Government's capacity to undertake national execution projects (paras. 11 (c) and 142).	UNDP agreed that national capacity assessments needed to be strengthened in terms of scope, frequency and quality and that roles and responsibilities needed to be clarified. UNDP told the Board that it would set standards for capacity assessments as part of its policy document on national execution and would issue better-defined capacity assessment guidelines as part of its revised Programme and Projects Manual.	UNDP and Governments must use the list of requirements for execution ("Capacity checklist for national execution") to be used in the design phase of a project. This list covers standards for capacities in the managerial, technical, finance and administrative areas.	Ongoing
10. UNDP should develop capacity assessment guidelines, incorporating standards of Governments' capacity to undertake national execution projects, and provide training to country offices and Governments, to help them carry out strategic capacity assessments (paras. 11 (d) and 142).	UNDP told the Board that it would set standards for capacity assessment as part of its policy document on national execution and would issue better-defined capacity assessment guidelines as part of its revised Programme and Projects Manual.	UNDP has developed a list of requirements for execution ("Capacity checklist for national execution") to be used in the design phase of a project. This list makes it easy to determine additional support that the government may require in order to execute the project. Support for global training on NEX is envisaged.	Completed
11. UNDP should establish an evaluation strategy to provide a comprehensive assessment of the progress and achievements of national execution (paras. 11 (e), 37 and 150-154).	UNDP told the Board that its approach consisted of a combination of internal reviews and external evaluations to identify experiences and highlight new issues for subsequent evaluations. UNDP'S 1997 evaluations workplan includes studies on cost-effectiveness, sustainability and self-reliance.	UNDP submitted to the Executive Board at the annual session for 1997 its strategy for assessing progress and achievement for national execution.	Completed
12. UNDP should initiate thematic evaluations of sustainability, capacity-building and cost-effectiveness, incorporating direct comparisons, where possible, between national execution and other execution approaches (paras. 11 (f) and 154).	The Board was pleased to note that UNDP'S 1997 evaluation workplan includes studies on cost-effectiveness, sustainability and self-reliance.	The Executive Office is planning to launch, in the first part of 1998, an evaluation on sustainability of results - impact of capacity-building, including when possible, comparison between national execution and other approaches.	1st quarter 1998

Board recommendation	UNDP response	Follow-up actions	Status and target date
6. UNDP, in association with Governments, needs to formulate projects designed to address any gaps or weaknesses in Governments' capacities to bring them up to the required standards (paras. 10 (c), 131 and 145).	UNDP has initiated regional workshops to strengthen the capacity of country offices and Governments in procurement activities. In 1996 UNDP had organized three regional workshops on monitoring and evaluation and was also developing arrangements with the World Bank to train senior officials in programme countries in monitoring and evaluation.	UNDP has developed a list of requirements for execution ("Capacity checklist for national execution") to be used in the design phase of a project. This list is intended as a tool to find better solutions to enhance these capacities. Support for global training in conjunction with the new procedures on NEX is envisaged. Preparation of training on the new procedures are in progress.	Completed Ongoing
7. The objectives of national execution should be clearly defined to provide a closer link with UNDP's overall aims (paras. 11 (a) and 120).	UNDP concurred with the need to establish clearly defined objectives for national execution and was preparing a policy document for submission to the Executive Committee, which would address this issue and define a clearer strategy for the further expansion of national execution.	The revised NEX procedures explicitly state the objectives agreed to by the Consultative Committee for Programme and Operational Questions as objectives for NEX.	Final draft completed The new procedure will be issued after Executive Board January 1998 meeting.
8. UNDP should issue new guidance on national execution which reflects all the relevant legislation and national execution's objectives, and strengthens and delineates UNDP's accountability requirements (paras. 11 (b) and 125).	UNDP told the Board that it was revising the Programme and Projects Manual and that this should simplify procedures, reconcile conflicting instructions and eliminate ambiguities concerning national execution. UNDP expects to issue the revised Manual by December 1996.	A final draft of the revised NEX procedures has been completed; to be issued after the Executive Board January 1998 meeting. The new NEX procedures will be incorporated in the Manual during 1998.	1st quarter 1998

Board recommendations	UNDP response	Follow-up actions	Status and target date
3. UNDP should ascertain whether any payments to contractors, subcontractors or the architect were outside the terms of the contracts and, if so, take appropriate recovery steps (paras. 9 (c) and 93-103).	In February 1996, UNDP engaged an architect to provide an independent assessment of the construction works. UNDP started an in-depth review into the contractual arrangements with the architect in question and his performance under the contracts. The Administrator has established a separate oversight committee to review accountability aspects of RFA.	UNDP has ascertained that payments were made in some instances outside the terms of the contract. Recovery steps are pending the outcome of the investigation by OAPR and the Office of Internal Oversight Services (OIOS).	Ongoing
National execution 4. UNDP needs to establish standards of Governments' capacities to manage and deliver national execution projects (paras. 10 (a), 33 and 142-143).	UNDP told the Board that it would set standards for capacity assessments as part of its policy document on national execution and would issue better-defined capacity assessment guidelines as part of its revised Programme and Projects Manual.	UNDP has developed a list of requirements for execution ("Capacity checklist for national execution") to be used in the design phase of a project. This checklist covers standards for capacities in the managerial, technical, finance and administrative areas. The approach is to use the checklist in determining what capacities need to be improved in order to execute and implement the project.	Completed
5. Country offices, in association with Governments, need to assess Governments' existing capacities against those [above] standards (paras. 10 (b), 141-142).	UNDP told the Board that it would set standards for capacity assessment as part of the policy document on national execution and would issue better-defined guidelines as part of its Programme and Projects Manual.	Same as above	Completed